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SUBJECT: ECUADOR SEIZED FRENCH OIL COMPANY'S FIELDS ON THREAT TO HALT PRODUCTION

REFTEL A: QUITO 173
B: QUITO 13

Classified By: Ambassador Heather Hodges for reasons 1.4 b & d.

¶1. (C) Summary: Ecuador seized French oil company Perenco's oil fields after the company threatened to halt output amid a tax dispute and oil embargo. Perenco's senior executive and spokesman for Latin America confirmed the assets expropriation, and said that Perenco would file another case with the arbitration court ICSID. End summary.

¶2. (U) On July 16, state-owned oil company Petroecuador took over Perenco's concessions on Block 7 and 21, which together produce about 25,000 barrels/day (4.5% of Ecuador's total production). According to Petroecuador spokesman Byron Galarza, "Operations are continuing normally, with supervision. Galarza told the press that "this (seizure) will stand until there is a judicial solution."

¶3. (C) Rodrigo Marquez, Perenco's senior executive and spokesman for Latin America, confirmed to us the assets expropriation. Marquez said that Petroecuador seized Perenco's oil fields illegally, and he thinks that this situation might be irreversible, which would rule out future investment in Ecuador. Marquez considers it unlikely Perenco will regain its assets, but he said that Perenco was open to continuing operations if Ecuador gives it back the concessions. Marquez told us that Perenco would seek compensation for its assets and would file another case with the arbitration court ICSID on illegal expropriation.

EVENTS LEADING UP TO SEIZURE

4.(U) On July 15, in a press interview with El Comercio newspaper, Marquez had said that Perenco would temporarily stop its operations in Ecuador as a result of the dispute with the GOE concerning the oil embargo for not paying windfall tax. According to Marquez, the company planned to stop operations starting July 16, as a measure to warn the GOE. Marquez said that the production would stop temporarily because they were keeping their staff.

¶5. (U) Also on July 15, Minister of Petroleum and Mines Germanico Pinto warned that if Perenco decided to stop production, there would be legal action against the company. Pinto said that stopping production was illegal, and had not been authorized by the National Direction of Hydrocarbons.

¶6. (C) Perenco had tried to negotiate a new contract with the GOE in late 2008 but could not agree on a common approach with minority partner Burlington (ref B). Burlington refused to give up its arbitration claim unless it received compensation for money lost under the windfall revenue tax law. Perenco's U.S. partner Burlington

has approximately 40% ownership; Burlington is now owned by ConocoPhillips.

¶7. (U) Since March 2009, the GOE has confiscated 2.5 million barrels of crude from Perenco for not paying the windfall tax of \$445 million and attempted to auction the crude. The auction was a failure because there were no buyers (ref A). As a consequence Perenco/Burlington reactivated its claim and asked the ICSID tribunal to consider "precautionary measures" to prevent the GOE from embargoing the consortium's oil. ICSID requested the GOE to refrain from taking any action in the case until a formal hearing was scheduled. However, Minister Pinto said that the ICSID requests were not mandatory but merely recommendations.

COMMENT

¶8. (C) It appears that President Correa took over Perenco's fields as a result of Ecuador's fear of falling petroleum production. Perenco's production halt would have been a significant decline in oil output. Expropriation with compensation could prove expensive at a moment when the GOE is short on liquidity.

HODGES